

- Finance Commission recommends how the devolution and distribution of resources should occur between centre and states.
- It determines the proper allocation of resources among the states.
- KC Neogy - 1st Chairman of Finance Commission
- 12th - C. Rangarajan
- 13th - Vijay Kelkar
- 14th - Y V Reddy
- 15th - NK Singh

Principles of Federal Financing

- Efficiency, Suitability, Adequacy criteria should be fulfilled - (Seligman)
- Efficiency → Cost Minimising
- Suitability → Should suit the needs of the specific country.
- Adequacy → Should fulfill the particular needs of the individuals.

- Centre and State should coordinate with each other for transparent and efficient use of resources.
- Administrative costs need to be minimised.
- For a smooth functioning of fiscal federalism, both strong centre and strong states are required.
It enhances devolution of resources, coordination and reduces imbalances.
- Financial discipline and borrowings should be minimised from both sides as much as possible.

Policy Measures for Smooth functioning of Fiscal Federalism

- No. of divisible taxes should increase. This ultimately increases the state resources.
- Irrational criteria should be modified and proper weightage should be assigned.
- Special grants should be provided to backward regions. Adequate revenue ~~and~~ to be given to areas suffering from emergencies such as natural disasters.
- Simplification of tax structure to prevent tax evasion.
- Ensuring fiscal sustainability and keep burden low.
- Improving environmental sustainability.

- Providing more autonomy to the states
 - Reducing vertical and horizontal imbalances.
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